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THE ABOUT

Health Care Reform

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with **Michelle Andrews and Amanda Gengler**

 Illustration by **Andrio Abero**

What you need to know about how your family will benefit, what you'll really pay, whether you'll get better or worse care, and what could go wrong from here.

Barack Obama has signed into law the most sweeping social program since L.B.J.'s Great Society initiatives, and now... um, what happens exactly? After months of debate that has played out across every conceivable form of media, more than half of Americans say they still don't understand how they'll be affected by this nearly $1 trillion blob of insurance regulations, tax credits, and new programs, according to a recent CBS News poll. No wonder. Until now the discussion—more like the shouting—has been about things like death panels and the public option, →

neither of which, by the way, is in the law. Now come the more practical questions. Where will you get insurance? Will you pay more or less for it? What will reform do to your tax bill? Most important, is the new system likely to leave you with better or worse access to quality care?

The answers aren't obvious, because the new law doesn't make a single, big, revolutionary change to achieve its goal of insuring nearly all Americans. It doesn't turn doctors into government employees, as in Britain, or create a government-run universal plan like Canada's (or, for that matter, our Medicare system). Instead, it weaves a loose safety net designed to catch people who don't get insurance at work and can't afford to buy their own, who lose their jobs, who have pre-existing conditions, or who want to create businesses and insure themselves and their workers. The Congressional Budget Office estimates that under the law eventually 94% of legal residents will have health coverage, up from 83% today.

For most of us, not a lot will seem to change at first. In 2019, the CBO estimates, 160 million Americans will still be getting their insurance from their employers, paying about the same rates as they would have without reform. Millions more will continue to buy private insurance.

That the changes may not be obvious, however, does not subtract from their magnitude. The reform is, to politely paraphrase Vice President Joe Biden, a really big deal. "It's the first step in the direction of saying that in America, too, the government has this responsibility," says Arnold Relman, former editor of the *New England Journal of Medicine*.

To ensure access to coverage, the law takes money out of some pockets and puts it into others. If you're affluent, you could pay higher taxes; if you're not, you might get tax credits to help you buy insurance. It also shifts some of the cost of insurance away from the sick and toward the healthy. To understand how reform will affect you, consider the answers to these key questions.

HOW COULD REFORM HELP ME?

Some benefits come online right away, including limited relief for many Medicare recipients with high prescription drug bills and an assurance that people with costly illnesses can still get coverage. (See "What Will Happen This Year," below.)

But the centerpiece of the bill, a transformation of the individual insurance market, won't fully take hold until 2014. The law sets up state-based insurance "exchanges" that will offer consumers and small businesses a choice of standardized and heavily regulated health plans. For the most part, this marketplace will serve people who aren't offered insurance by a large employer. But even for those who are, it will be an important backup in an economy where jobs seem less secure and firms lean more on freelancers for professional work. The reforms offer three main benefits.

Insurers will have to offer you coverage. Once the law phases in, in 2014, insurers will no longer be able to turn anyone down because of a pre-existing condition; from pregnancy to heart disease, they'll all be covered. That's on top of earlier changes that will restrict or block annual and lifetime limits on what insurers, including in employer

What Will Happen This Year

Although the biggest changes happen in 2014, several key provisions of the new law will kick in later this year (by October unless otherwise noted; implementation may vary).

HIGH-RISK HELP	Starting in July, adults who have a pre-existing condition and have been uninsured for at least six months can get insurance through a temporary high-risk pool with subsidized premiums.
KIDS GET COVERED	Insurers will no longer be able to deny coverage to children with pre-existing conditions. Young adults who don't get health benefits at work can stay on their parents' plan until they turn 26.
EXPANDED COVERAGE	Insurers can no longer impose lifetime limits on benefits. New private plans must fully cover preventive services such as immunizations and mammograms (no co-pays or deductibles).
THE GAP	Medicare beneficiaries will get a $250 rebate when they hit the gap in coverage for prescription drugs, known as the "doughnut hole" (when total costs pass $2,830 until they reach $6,440).

plans, will pay. The law also restricts the practice of "rescission"—finding a reason to revoke coverage after someone gets sick. Rates won't be tied to your health, although smokers may have to pay up to 50% more. The oldest people in a plan will pay no more than three times the rate paid by the youngest. In short, policies you buy yourself will be a lot more like the group plans you get at work. "For people ages 50 to 64, rates will come down a bit," says James O'Connor, a consulting actuary with Milliman.

The rules most help people who have health problems. An analysis by the Lewin Group, a consultancy owned by insurer UnitedHealth Group, finds that for families who currently spend more than $10,000 a year on health care, the new law will reduce costs by about $2,400. Even if you're well insured and in robust health now, this is a valuable backstop. One of the harshest aspects of our current system, which depends so much on employers for coverage, is that a long, expensive illness can break just about anybody. "In that sense, we're all uninsured," says Lewin's John Sheils.

62%
of Americans think their health-care bills will rise under the new law.
SOURCE: CNN/Opinion Research Service, March 19–21, 2010

You may get subsidies. The insurance on the exchanges won't be free—a family of four could well face annual premiums of $13,000 or more, according to the Kaiser Family Foundation. In fact, because plans on the exchanges will provide more benefits than many individual policies do today, coverage may cost 10% to 13% more than the average individual policy now. But a bit over half of those using the exchanges will receive large tax credits to help them buy. Those subsidies reach deep into the middle class: For families earning up to four times the poverty line—$88,200 today for a couple with two kids—the tax credits will be set so that they pay no more than 9.5% of their income for a fairly basic health plan in 2014. That cap is designed to rise gradually should premiums grow faster than incomes. (People with lower incomes will pay even smaller percentages; the law also allows millions of the near poor to join Medicaid.) Credits will also be available to offset out-of-pocket spending. All of these credits will cost about $450 billion over 10 years.

The tax credits will be refundable, meaning you'd get them no matter how much you actually pay in taxes, and you won't have to wait until after April 15 to see the benefit. The money will probably be sent to your insurer, which will then lower your monthly bill accordingly, says Jennifer Tolbert, an associate director at the Kaiser Family Foundation. (Check out its subsidy calculator at kff.org.)

Health plans will be simpler to shop for. To get the insurance, you'll tap into an exchange set up by your state or a group of states—say, a northern New England exchange—by going online to a website that may look a lot like Travelocity or Expedia, says Alissa Fox of the Blue Cross Blue Shield Association, an insurers' trade group. All the plans must provide at least a standard menu of essential benefits, so you'll have to spend less time scouring contracts for surprising loopholes. And they will come in just four basic types: bronze, silver, gold, and platinum. Although

How Reform Affects ...

A Self-Employed Couple

AGES: 38 and 36; kids, 6 and 10
INCOME: $85,000
WORK STATUS: Freelancers
INSURANCE: Individual policy

What's Changing

WITHIN A YEAR:

- Lifetime limits on their current policies will be lifted.
- If they buy a new policy, preventive care and screenings won't cost anything.

BY 2014:

- They can buy an individual policy on a state exchange.
- With earnings of less than 400% of the poverty level (family of four today: $88,200), they'll be eligible for a subsidy worth around $1,000.
- They'll have a choice of four plan types. Their subsidy will be based on the price of the "silver" plan, which covers an average of 70% of medical costs.
- Out-of-pocket costs will initially be capped at $7,933 a year.
- If they don't buy insurance, they'll pay a penalty of the higher of 1% of income or $95.

The Bottom Line

This family will likely end up paying less for health coverage than they do today because of the subsidies.

SOURCE: Kaiser Family Foundation

plans can compete by mixing different premiums, deductibles, and co-pays, you'll know the average level of out-of-pocket costs you can expect in each type. For example, the silver plans will ask you to pay about 30% of your costs out of pocket; premiums on that plan for a family of four could easily run more than $10,000 a year. (The subsidies are calculated based on the price of the silver plan.) The more expensive platinum plans, which would be most similar to a large employer's coverage, would have out-of-pocket costs of just 10%.

WHAT'S THE NEW LAW GOING TO COST ME?

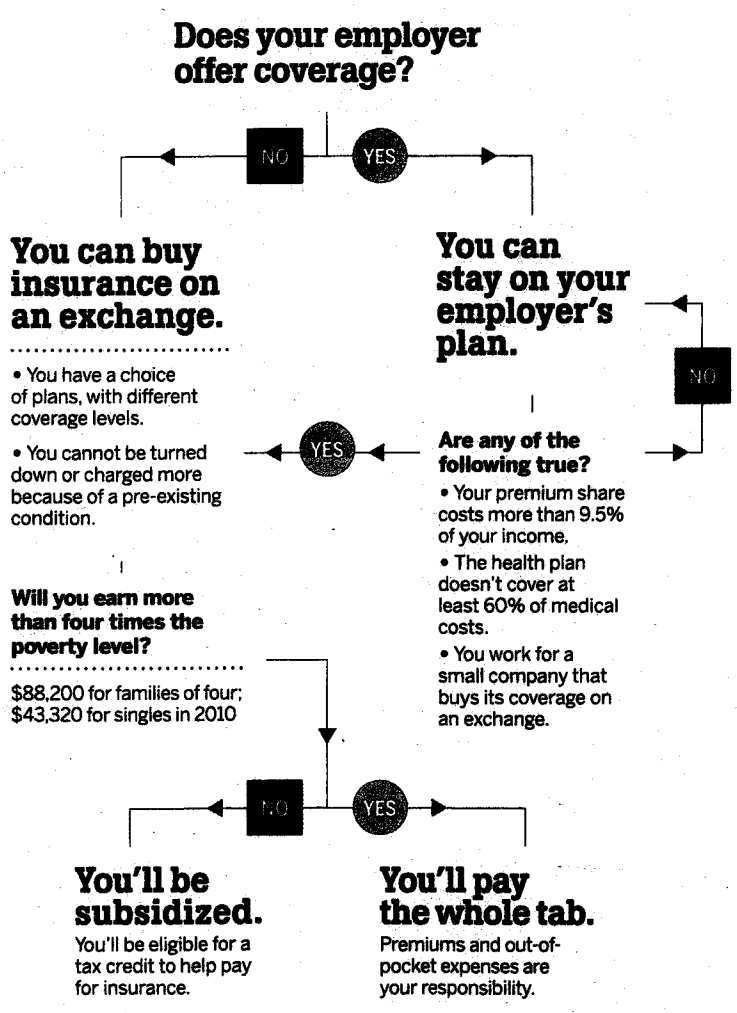
The new regulations and credits are expected to bring 32 million Americans into the insurance system. The money to do that has to come from somewhere. The needed cash will be raised through a combination of measures: by payroll tax hikes on high-income earners, by forcing healthier people to pay more for insurance in certain circumstances, by squeezing the income of health care providers at times, and, most controversially, by punishing some people who opt out of coverage. Here are the items that could most affect you.

You'll be fined if you don't join up. The fines start in 2014. By 2016 you'll be dunned $695 a year or 2.5% of your income, whichever is higher, if you don't have health insurance. (There's an exemption if premiums top 8% of your income.) Why the heavy hand? Insurers fought for it. Even with subsidies, some people may decide that coverage is too expensive. They'll tend to be healthier than average—that's why they'd be willing to take the risk. But that poses a problem in a system where insurers have to take all comers. If healthy people drop out, the pool of people paying in will typically be sicker and more expensive to treat. That causes premiums to rise, which causes more healthy people to drop out, which means higher premiums, and so on. To prevent this "death spiral," the law pushes people to buy.

You'll pay more tax if you earn over $250,000. Starting in 2013, couples will pay additional taxes on earnings above $250,000 ($200,000, if you're single)—0.9% on earned income and 3.8% on investment income. For a household earning $300,000 in salary, that adds up to about $450 more a year.

How Will You Get Health Coverage?

Starting in 2014, many Americans will be able to buy health insurance on state or regional exchanges. The answers to these questions will help you decide if you should be one of them.



NOTE: Does not include other features of the law, such as wider eligibility for Medicaid and an option for certain employees to receive a voucher from their company to buy their own coverage.

You could get less generous coverage at work. By 2018, a so-called Cadillac-plan tax slaps employer insurance plans that cost more than $27,500 a year for family coverage. For every dollar above that limit, the insurer has to pay a 40% tax; since the plan would no doubt pass that cost on to enrollees, it's basically a tax on people with very generous health benefits ($27,500 is more than twice the average for employer plans). Here's the thing: Many people with these pricey plans won't pay the tax. "Employers will work hard to keep their plans under that limit," says Mercer health care consultant Tracy Watts. They'll shift to plans with lower premiums and pay out more of their compensation in cash.

What this tax really does is peel back a costly subsidy in the current system, one most economists think is counterproductive anyway. Right now, every dollar your employer spends on your health plan is untaxed, which means that companies have a big incentive to offer a lot of pay in the form of insurance benefits rather than wages. People with really generous health insurance have less incentive to think about the cost of a pill or procedure, which contributes to the sky-high inflation in health costs.

If you are young and healthy, your premium could go up. Today insurers that sell policies to individuals generally set their price based on risk, the same way an auto insurer does. That can mean unaffordably high prices for people who are sicker, but the flip side is that healthy people pay less. By leveling out the premiums—as well as mandating benefits that a healthy person might choose to forgo—the new law could result in higher prices in the individual market for those who rarely go to the doctor. Young men, for example, could see their premiums rise more than 15% in many states, according to Milliman's O'Connor. For many, this price hike will be offset by subsidies and the ability to join a parent's plan. The law also allows people under 30 to buy a cheaper plan that covers only catastrophic costs. But Lewin's analysis finds that for people who now spend less than $1,000 a year on health care, costs go up about $800. That's a big spike.

You might have to find a new Medicare Advantage plan. About a quarter of Medicare recipients get their benefits through privately run Advantage plans, which are typically managed-care programs that may limit doctor choice but add in other benefits like dental plans or better drug coverage. These for-profit plans cost taxpayers 14% more than regular Medicare, and in 2011 the new law scales back that subsidy. Some Advantage plans will probably leave the market, forcing seniors to switch. However, "the plans that have been around for a long time are going to be fine," says Vicki Gottlich, a senior policy attorney with the Center for Medicare Advocacy.

The new law makes other big cuts in the Medicare system that will save an estimated $400 billion over 10 years. (That's out of $7 trillion

How Reform Affects ...

Small-Business Owners

AGES: 42, 47
INCOME: $130,000
WORK STATUS: Business has six employees
INSURANCE: Individual policy

What's Changing

WITHIN A YEAR:

- They'll qualify for a temporary incentive for small-biz owners to provide health coverage to their employees because the average wages of their staff are less than $50,000 and they have fewer than 25 full-time workers.
- They'll be entitled to a tax credit for their company worth up to 35% of the cost of premiums for the plan.
- They must pick up at least half of the tab for their employees' coverage to get the credit.

BY 2014:

- The couple can buy coverage for their staff on a state exchange.
- If they do, the company will qualify for a tax credit worth up to 50% of the premiums.
- They won't be fined if they don't provide coverage because their business has fewer than 50 employees.
- If they decide not to offer health benefits, they won't be eligible for a subsidy on their individual policy because of their high income. They'll likely pay 5% to 10% more than they do today.

The Bottom Line

If these owners decide to buy a small group plan on their state exchange, they'll pay less than they would for such coverage today because they'll qualify for subsidies.

NOTE: Premium rise assumes no increase in benefits; moderately regulated state.
SOURCE: Milliman

JOSHUA GORCHOV

What should you demand from your retirement plan provider?

☐ Financial Strength and Security

☐ Prudent Investment Policy

☐ Outstanding Service

☑ All of the above

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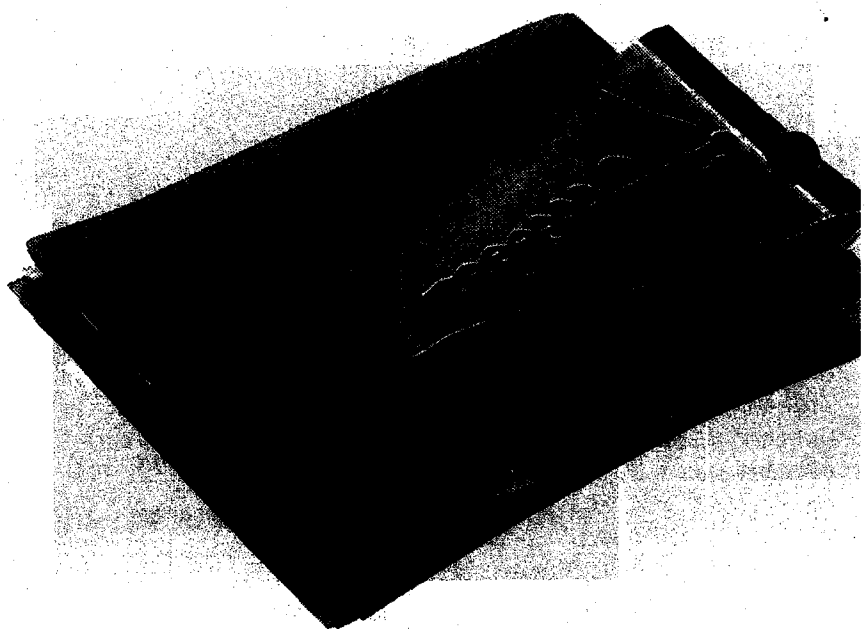
in total spending.) For example, it slows the rate of growth in fees to hospitals, on the assumption they can become more productive along with the rest of the economy. These cuts won't have an impact on your benefits—in fact, seniors get some new ones (see page 80). But critics of Obamacare think providers will fight hard to stop these cuts. "You've just said, 'Take care of 30 million more Americans—now go change your business model too,'" says former CBO director Douglas Holtz-Eakin, who was a top adviser to John McCain's campaign.



WHERE COULD IT GO WRONG?

Instead of creating a whole new health care system, the law tries to build on the current one. That means it pulls on a lot of different strings—and should it tug too hard, parts of the system could unravel if a future Congress can't agree on a fix.

The mandates might not be tough enough. The mandate to buy health insurance is one of the least popular parts of reform. (It's the basis for a claim by 18 state attorneys general that the law is unconstitutional.) But some health policy analysts worry the real problem is that the imperative isn't strong enough. If too many healthy people decide not to buy insurance, premiums will climb even faster than projections. That will make coverage on the exchanges increasingly unaffordable for people who make too much money to qualify for the credits.

How big is the risk? It's hard to say because nothing on this scale has been tried before. An annual open enrollment period for the exchange—like what you have at work—will make it harder to game the system by waiting until you are sick to buy coverage. But Cori Uccello of the American Academy of Actuaries hopes regulators will toughen the rules further. Example: They could prevent people from upgrading from, say, a bronze to a gold plan during the year. Jonathan Gruber, an MIT economist who helped design the similar Massachusetts plan and has consulted for the Obama administration, is optimistic that the existing nudge will be enough. The young people who would be most tempted to opt out often have low health care costs. Add in the fine, and they just wouldn't be saving much by taking the risk of being uninsured, he says.

$11,900
The maximum a family can spend out of pocket if they're insured through the high-risk pool that will be established this year.

Employers could bail too quickly. Eugene Steuerle of the Urban Institute points to a basic economic tension in the plan: The government wants to help most families keep their health costs to around 10% of income, but Congress decided it couldn't afford to directly subsidize everyone enough to accomplish that. So the plan counts on most employers to continue to offer coverage. That's why all but the smallest companies will usually be fined if they do not provide a health plan for their employees. But the penalty that companies will pay for failing to offer coverage is lower than the cost of the insurance.

President Obama said many times in campaigning for reform that if you like your coverage, you can keep it. That's basically true, but only if your employer doesn't decide to get out of the insurance game altogether. And some surely will. For many lower- and middle-income workers, the subsidies on the exchanges are worth thousands of dollars. That will make it easy for firms with low-paid workforces to drop coverage and still attract good staff—in many cases the workers will actually have better coverage via the exchanges. The CBO estimates that about 9 million will lose their workplace plan, offset by another 7 million who gain it because the mandate motivates more people to get jobs with health benefits. But the actual change will most likely be

How Reform Affects ...

A Well-Off Couple With Benefits

AGES: 50 and 53; daughter age 23

INCOME: $275,000, plus $25,000 in investment income

WORK STATUS: He works for a large company.

INSURANCE: Employer group plan

What's Changing

WITHIN A YEAR:

- Insurance costs and coverage remain largely the same.
- Small exception: In 2011, flexible spending accounts can no longer be tapped to pay for nonprescription medicine.
- Daughter can stay on Mom and Dad's plan until she turns 26 or finds a job that offers health benefits.

BY 2013:

- Contributions to his FSA are capped at $2,500, vs. the typical $4,000 or $5,000 now, erasing about $600 to $1,000 in potential tax savings.
- Top earners like this couple pay higher taxes on wages and investment income over $250,000.

BY 2014:

- They gain some protection if the husband, who has early signs of heart disease, loses his job or retires early. A family policy on the state exchange, unlike today, must cover his pre-existing condition at no extra cost.

BY 2018:

- Since their group plan is an especially rich policy with annual premiums of more than $27,500 (both the employee and the employer share), they're likely to see a reduction in benefits because of a new tax on these plans.

The Bottom Line

In a few years they'll pay $225 more in payroll taxes and $950 in investment taxes. Their out-of-pocket costs could also grow as their benefits become less generous.

modest. But those numbers are just estimates. "A Wal-Mart or two could shift it," says Steuerle. If employers move away from insurance too fast, the transition could be bumpy for a lot of people. And Obamacare's subsidies may cost more.

What if no one can tell that it's working? Finally, the new law faces major political problems. Social Security and Medicare became hugely popular—indeed, almost untouchable—once Americans started seeing the benefits. But this law will directly subsidize only a fraction of the population. Health care premiums and out-of-pocket costs are growing fast, and this bill would, at best, merely slow that growth. "In 2012 premiums will be higher than they are today—no question," says Gruber. The pain for many people might be less than it would have been without the law, he says, but it will still be pain, and that will make it easy to criticize the law as the cause of the problem. ("Could be worse" is a lousy comeback.) The Republicans will have a tough time gaining enough seats to repeal reform. But a law that Congress is still arguing about will be tougher to fix. Even reform's supporters admit a lot will need to be done.

WHAT DOES REFORM FAIL TO FIX?

In the four years until the exchanges launch, the feds, 50 states, and a whole bunch of private insurance companies will have to do a lot of heavy administrative lifting. "The technical challenges are formidable," says economist Henry Aaron of the Brookings Institution. For example, the IRS and the state exchanges will have to figure out how to keep track of income data to pay the tax credits. It's one thing to work out the details in blue states, where the plan is popular, but what about in a state whose attorney general campaigned with DON'T TREAD ON ME flags?

$800
The estimated increase in costs for the healthiest people.
SOURCE: The Lewin Group

There's an even bigger challenge ahead that the new law only begins to tackle: figuring out how to get a grip on exploding health care costs. This law can't work in the long run otherwise. "When you expand coverage in a meaningful way, cost control inevitably ends up on the agenda," says Jonathan Oberlander, who teaches health policy at the University of North Carolina. Rising private insurance premiums, for example, could steadily erode the impact of the subsidies, forcing Congress to spend more. But it's not just the law that's at stake. It's the American economy.

How Reform Affects ...

A Retired Couple

AGES: 68 and 65
INCOME: $95,000
WORK STATUS: Neither working
INSURANCE: Medicare

What's Changing

WITHIN A YEAR:

- They'll get a free annual exam, plus no co-pays or deductibles for preventive screenings.
- Since they have Part D drug coverage and each spends more than $3,000 a year on medicine, they'll each get a rebate of $250 in 2010 for prescription costs in the so-called doughnut hole, the gap in coverage for drug expenses between $2,830 and $6,440.
- In 2011 they'll get 50% off brand-name prescriptions in the doughnut hole.

BY 2020:

- No more doughnut hole. They'll pay 25% co-insurance on drugs until their costs hit a catastrophic level, and 5% thereafter.

The Bottom Line

They'll save $500 on medicine this year; premiums for drug coverage probably will rise just $1 to $2 a year.

SOURCE: Milliman

Since reform passed, there's been much debate over whether it will really reduce the deficit over time, as the CBO says it will. But here's the big-picture fact you can't lose sight of: Before this law and after it, medical costs have America headed toward a fiscal catastrophe.

In 2050 the deficit is projected to be about 9% of GDP. In that time, Medicare and Medicaid spending together go from 5% of the economy today to more than 12%. "It's more than all of the problem," says Aaron of Brookings. And that growth is only partly owing to demographic changes like the aging of the baby boomers; it's largely because of the huge increase in per-person spending on doctors, hospitals, and pills. Put simply, if you're worried about the deficit, you have to worry about how to cut the growth of health spending.

$2,400
The estimated savings under the new law for families that spend the most on health care.
SOURCE: The Lewin Group

There are three basic schools of thought about how to do that. The first is to have Americans pay for less of their care via insurance and more out of their own pocket, so that they'll be more sensitive to prices. That's the idea behind the Cadillac tax, although Gail Wilensky, a former top Medicare official, says the current version is far too limited. "It's dubbed a Maserati tax," she says. Pushing Americans into less generous insurance is the preferred Republican approach. Rep. Paul Ryan, the GOP's big brain on health care policy, has proposed that future Medicare benefits for people now under 55 be turned into an $11,000 voucher to buy private insurance. Since the value of your benefit would have a hard cap, you'd be acutely aware of medical pricing.

Another school looks at doctors, hospitals, and drugmakers as the big drivers of cost. Evidence from researchers at Dartmouth, for example, shows that in some areas of the country, doctors provide vastly more treatment for the same illness without getting better results. The new law sets up a number of smart programs to evaluate how care is provided and try to change the economic incentives in the current system, which pays doctors for each procedure, not for providing the best care. But this approach could mean more of something patients and doctors say they hate: managed care. Or something even bigger. Former *New England Journal of Medicine* editor Relman thinks the only way for this to work is to have more doctors working on salary for large, nonprofit medical groups—hard to do in a system in which payment is still fragmented among many private insurers.

The third approach is to look less at how much care people get and more at how much providers charge. Tackling that could mean government price regulations or creating a big public insurance plan with bargaining power—yes, a lot like the hotly debated public option.

Over time, we'll probably do some combination of all of the above, and we'll fight like crazy along the way. After months of watching Tea Parties, town hall debates, filibuster threats, and reconciliation drama, you're probably sick of hearing about health care. This bill doesn't come close to curing all that ails our system. Treatment is just getting started. ■

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